BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-807-W/S - ORDER NO. 92-29

JANUARY 24, 1992

IN RE: Application of Piney Grove Utilities, Inc. for Approval of a New Schedule of Rates and Charges for Water and Sewer Service Provided to its Customers in Lexington and Richland Counties, South Carolina.	ORDER APPROVING RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed by Piney Grove Utilities, Inc. (the Company or Piney Grove) on July 25, 1991, for an increase in its rates and charges for water and sewer service provided to its customers in Lexington and Richland Counties, South Carolina. The Application was filed pursuant to S.C. Code Ann.§58-5-240 (Supp. 1991) and 26 S.C. Regs. 103-821 (1976).

By letter dated August 12, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions.

A Petition to Intervene was filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate). A Notice of Protest was filed by Mrs. Bessie Lee Green.

The Commission Staff (Staff) made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate also conducted discovery relating to the Company's Application.

On December 12, 1991, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's hearing room. Pursuant to S.C. Code Ann.§58-3-95 (Supp. 1991), a panel of three Commissioners, Vice Chairman Yonce, presiding, Commissioner Arthur, and Commissioner Mitchell, was designated to hear and rule on this matter. Louis H. Lang, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Piney Grove provides water service to 123 customers in Graustark, Allbene Park, and Franklin Park Subdivisions and sewer service to 339 customers in Lloydwoods and Franklin Park Subdivisions in Lexington and Richland Counties, South Carolina.

2. Piney Grove was acquired from General Utilities, Inc. in 1985. Piney Grove's present rates and charges are those that were approved for General Utilities, Inc. between 1970 and 1973.[1] Currently, Piney Grove charges a monthly minimum of $4.00 for use of 133 cubic feet for water service to its Allbene Park and Graustark Subdivisions and a minimum of $4.00 for use of 3,000 gallons of water to its customers in the Franklin Park Subdivision. Piney Grove charges a $7.50 fee for disconnection or reconnection of its water service.

3. Piney Grove charges $3.00 per month, or $30.00 per year in advance, for sewer service to its customers in the Franklin Park Subdivision. The Company charges its customers in the Lloydwood Subdivision $4.50 per month for sewer service.

4. Piney Grove proposes to charge its customers a monthly Basic Facility Charge of $9.00 and a monthly Commodity Charge of

1. Specifically, the Company's water and sewer charges were approved by the following orders.

SUBDIVISION		ORDER NO.	DOCKET NO.	DATE
GRAUSTARK	(WATER)	15,156	15,033	4-7-70
ALLBENE PARK	(WATER)	15,157	15,034	4-7-70
FRANKLIN PARK	(WATER)	15,176	15,066	4-21-70
FRANKLIN PARK	(SEWER)	15,177	15,067	4-21-70
LLOYDWOOD	(SEWER)	16,753	16,578	3-22-73

$3.50 per 1,000 gallons or 133 cubic feet for water service. This charge results in an increase of 402.43% on an average customer's monthly bill. In addition, Piney Grove proposes to increase its disconnect and reconnect charge for water service to $35.00.

5. Piney Grove proposes to charge its customers a monthly charge of $29.00 for sewer service. This charge results in an increase of 867.67% on an average Franklin Park Subdivision customer's monthly bill. This proposed charge results in an increase of 544.44% on an average Lloydwood Subdivision customer's monthly bill.

6. Piney Grove asserts that its requested increase in rates and charges are necessary and justified because it is currently losing money on its water and sewer operations. Specifically, Piney Grove notes that in 1990, it had a net operating loss of $63,912 and in 1989 it had a net operating loss of $73,597. Piney Grove claims that it is unlikely that it can continue its provision of water and sewer service without a satisfactory rate increase.

7. Piney Grove asserts that C.W. Haynes & Company, the developer of three of the subdivisions, manages the Company but does not collect a management fee. Piney Grove states that C.W. Haynes and Company and its shareholders have loaned the Company money in order to maintain its water and sewer operations.

8. Piney Grove proposes that the appropriate test year upon which to consider its requested increase is the twelve month period ending December 31, 1990.

9. Under its presently approved rates, the Company states that its per book operating revenues for the test year were $27,562.[2] The Company seeks an increase in its rates and charges for water and sewer service in a manner which would increase its operating revenues by $136,231.

10. Staff proposes to adjust the Company's per book revenues by $389. This adjustment reflects revenues which will be received based on the number of the Company's sewer customers at the end of the test year. Accordingly, after accounting and pro forma adjustments, Staff concluded that Piney Grove's operating revenues were $27,951.

11. The Company asserts that under its presently approved rates, its operating expenses for the test year, after accounting and pro forma adjustments, were $128,157. Staff concludes that the Company's operating expenses for the test year, after accounting and pro forma adjustments, were $71,886. Staff made this proposal after making the following adjustments to the Company's expense accounts:

(A) Management Fee

The Company proposed to pay 5% of its revenues as a management fee to C.W. Haynes & Company. The Company explained that the proposed management fee would reimburse C.W. Haynes & Company for the expenses it incurs such as postage, bookkeeping, and salaries in managing Piney Grove. The Company admitted that

2. Unless otherwise stated, this Order will refer to the combined water and sewer revenues and expenses of the Company.

the selection of a charge of 5% of its revenues was not based on any type of study of C.W. Haynes & Company's costs to perform services for Piney Grove.

Staff did not propose a management fee for Piney Grove. Staff accounting witness Scott testified that the Company had no documentation supporting its proposed management fee and that because the Company did not pay any management fees during the test year, there was no known and measurable information upon which to accept the Company's proposed adjustment.

(B) Rate Case Expenses

The Company estimated that its rate case expenses would be $1,000 and, thereafter, proposed to recover the $1,000 expense over a three year period. Staff amortized the Company's actual rate case expenses of $1,771 over a three year period for an adjustment of $590.

(C) Capitalization of Plant

Staff proposed to capitalize water pump controls, two water pumps, a chemical tie-in pump, and a sewer lift pump which were purchased and installed after the test year. This adjustment increased the Company's plant in service by $9,597.

(D) Depreciation Expense/Accumulated Depreciation

The Staff proposed to adjust the Company's depreciation expense on the Company's plant to reflect straight-line depreciation rather than depreciation on an accelerated rate as recorded on the Company's books. The Staff's proposed depreciation rate was based on rates recommended by the

Commission's Water and Wastewater Department. Staff's annualization reduced the Company's depreciation expense by $7,658 and, likewise, its accumulated depreciation by $7,658.

(E) Interest Expense

During the test year, the Company did not pay any interest expense. The Company proposes to recover $21,858 in interest for loans made to Piney Grove by its shareholders and C. W. Haynes and Company, Inc. This interest expense was calculated by assuming the Company would repay its debt at an average interest rate of 10% over the next five years.

Staff proposes to synchronize the Company's interest expense with the debt portion of its rate base. Staff witness Scott testified that this method of calculating interest ensures that the interest expense is associated with rate base and is not interest associated with debt incurred to cover cash flow problems or to support non-utility related business activities.

12. The Company stated that, after accounting and pro forma adjustments to its operating revenues and operating expenses, its net income for return was ($100,595). Staff found that, after accounting and pro forma adjustments to the Company's operating revenues and operating expenses, the Company's net income for return was ($43,935).

13. After making its accounting and pro forma adjustments, Staff concluded that the Company's present operating margin is

(181.35%).[3] Staff concludes that the Company's proposed increase in rates and charges would increase the Company's operating margin to 39.32%.

14. Ms. Green, a resident of Franklin Park, testified she received water and sewer service from Piney Grove. She testified that while she had not experienced any problem with the quality of water, her water supply was not reliable. Ms. Green testified that within the past year she had been without water on at least six occasions. Ms. Green explained that Franklin Park was a low income area and that its water service was not sufficiently reliable to justify an increase in the amount proposed by the Company.

15. Ms. Cooper, another resident of Franklin Park, testified that her water service had also been interrupted during the past year. She explained that while Piney Grove's rates were currently low, an increase should only be granted if the water service improved. Ms. Cooper testified she had no complaints with her sewer service.

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing water and sewer service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S. C. Code Ann. §58-5-10, et seq. (1976).

3. The Company did not provide an operating margin.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's revenues and expenses and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test-year changes in expenses, revenues, and investments and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 Pa.Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

In light of the fact that the Company proposes that the twelve-month period ending December 31, 1990, is the appropriate test year and Staff has audited the Company's books for that test year, the Commission concludes that the twelve-month period ending December 31, 1990, is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that the Company's operating revenues for the test year were $27,951. In making this conclusion, the Commission has accepted Staff's proposal to adjust the Company's revenue to project its actual revenue based on its year-end customers. The Commission concludes this method of annualization is appropriate.

4. The Commission has considered each proposed adjustment to the Company's operating expenses as suggested by the Company, the Consumer Advocate, and Staff. The Commission approves or disapproves of each of the proposed adjustments as follows:

(A) Management Fee

The Commission concludes that, for the purposes of this ratemaking proceeding, the Company's proposed management fee should be denied. While it recognizes that the Company does not incur postage, rent, telephone, and other typical utility expenses because these expenses are absorbed by C.W. Haynes and Company, the Commission nonetheless concludes that there is no evidence in the record which supports the selection of a management fee of 5% of the Company's revenues. Accordingly, on the basis of the present record, the Commission concludes it would be inappropriate to allow the Company to recover a management fee from its ratepayers.

(B) Rate Case Expenses

The Commission accepts Staff's proposal to amortize the Company's known rate case expenses over a three year period. Accordingly, the Commission adopts Staff's recommendation to allow Piney Grove to recover $590 over three years.

(C) Capitalization of Plant

The Commission accepts Staff's proposal to include in plant items that were purchased and installed by the Company outside of the test year. The Company finds that these plant items are being used to benefit the ratepayers and, therefore, are properly recoverable. Hamm v. Southern Bell, __S.C.__, 394 S.E.2d 311 (1990), supra.

(D) Depreciation Expense

The Commission accepts Staff's proposal to depreciate the Company's plant on a straight-line basis at rates previously recommended by the Water and Wastewater Department for similar items. The Commission finds that without documentation supporting its proposed rates, the Company's accelerated depreciation rates are inappropriate.

(E) Interest Expense

The Commission adopts Staff's proposal to synchronize the Company's interest expense and its associated income tax savings to the debt portion of its rate base. The Commission finds that Staff's proposal equitably allocates interest expense and tax savings between the utility's shareholders and ratepayers as it insures that ratepayers will not pay for interest expense incurred for non-utility purposes.

(F) Miscellaneous and Other Adjustments

The Commission adopts all other pro forma and accounting adjustments proposed by Staff and not objected to by any party. All other adjustments proposed by various parties not specifically addressed herein have been considered by the Commission and have been denied. The Commission has also adjusted all general, state, and federal taxes to reflect all other approved adjustments.

5. Based on the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and

expenses, the Commission concludes that Piney Grove's net income (loss) for return is as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	$27,951
Operating Expenses	71,886
Net Operating Income (Loss)	($43,935)
Customer Growth	-0-
Net Income (Loss) for Return	($43,935)

6. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlighted judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

7. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of

the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton, supra.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company's operating expenses for the test year, after accounting and pro forma adjustments, and customer growth, the Company's present operating margin (loss) is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	$27,951
Operating Expenses	71,886
Net Operating Income (Loss)	($43,935)
Customer Growth	-0-
Total Income for Return	($43,935)
Operating Margin (Loss) (After Interest)	(181.35%)

8. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water and sewer service, the quality of the water and sewer service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S. C. Public Service Commission, __S.C.__, 401 S.E.2d 672 (1991); S.C. Code Ann.§58-5-290 (1976).

9. The fundamental criteria of a sound rate structure have been characterized as follows:

> ...(a) the revenue-requirement or financial-need objective, which takes the form of a fair return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.
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> Bonbright, Principles of Public Utility Rates (1961), p. 292.

10. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 6.04% operating margin for the next year and an operating margin of 8.50% thereafter. In order to have a reasonable opportunity to earn a 6.04% operating margin in the next year and a

8.50% operating margin thereafter, the Company will need to produce $85,534 in total annual operating revenues for the next year and $88,474 in total annual operating revenues thereafter.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE	YEAR 1	SUCCEEDING YEARS
Operating Revenues	85,534	88,474
Operating Expenses	73,611	74,197
Net Operating Income	11,923	14,277
Customer Growth	-0-	-0-
Total Income for Return	11,923	14,277
Operating Margin (After Interest)	6.04%	8.50%

11. The Commission has carefully considered the financial needs of the Company and the concerns of its customers. While the Commission recognizes that the Company is currently operating with a negative operating margin, the Commission also recognizes that there is customer dissatisfaction with the reliability of the Company's water service.

Further, the Commission recognizes that the Company's proposed $9.00 monthly Basic Facility Charge and $3.50 per 1,000 gallon usage charge would increase an average residential customer's monthly water bill by 402.43%. Similarly, Piney Grove's proposal to increase its sewer rates from a flat rate of $3.00 per month for customers in Franklin Park and $4.50 per month for customers in Lloydwood to $29.00 per month would increase a Franklin Park customer's sewer bill by 867.67% per month and a Lloydwood customer's sewer bill by $544.44% per month.

12. On the other hand, the Commission recognizes that the

Company's rates have not been increased since the inception of the water and sewer systems in the early 1970s. The Commission is cognizant of the fact that basic expenses have increased with time. Moreover, the Commission notes that since 1985 the Company has made $189,111 worth of capital improvements to its water and sewer facilities which directly benefit its current ratepayers.

13. The Commission concludes that an increase in the Company's water and sewer rates is necessary. However, the Commission finds that Company's proposed increase is inappropriate. Accordingly, for water service the Commission will allow the Company to charge a Basic Facility Charge of $6.00 per month and a usage charge of $2.00 per 1,000 gallons. The Commission approves the Company's proposed $35.00 disconnection and reconnection fee as reasonable. 26 S. C. Regs. Ann. 103-732.5 (Supp. 1991).

14. For one year from the date of this Order the Commission approves a flat rate of $10.00 per month for sewer service for customers in the Franklin Park Subdivision. Thereafter, the Commission approves a flat rate of $15.00 per month for customers in the Franklin Park Subdivision. The Commission approves a flat rate of $15.00 per month for sewer service for customers in the Lloydwood Subdivision. Finally, the Commission approves late payment fees and a sewer reconnection fee in keeping with 26 S.C. Regs. 103-532.2 and 103-532.4 (Supp. 1991).

15. Based on the above considerations and reasoning, the Commission hereby approves the proposed rates and charges as stated in this Order as a just and reasonable manner in which to produce

and distribute the increased revenues which are necessary to provide Piney Grove with the opportunity to earn its approved operating margins.

16. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976).

17. It is ordered that if the approved schedule is not placed in effect until three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

18. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class C Water and Sewer Utilities, as adopted by this Commission.

19. Finally, the Commission recognizes that Piney Grove has been attempting to sell its water and sewer systems. The Commission encourages Piney Grove to continue in this effort.

20. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)

APPENDIX A

PINEY GROVE UTILITIES, INC.
1500 Lady Street
Columbia, SC 29201
803-799-9700

FILED PURSUANT TO DOCKET NO. 90-807-W/S - ORDER NO. 92-29
EFFECTIVE DATE: JANUARY 24, 1992

WATER SERVICE
(ALL RESIDENTIAL)

MONTHLY CHARGES:

1. GALLON METERS
   Basic Facilities Charge ------------------------$6.00
   Commodity Charge--------------$2.00 per 1,000 gallons

2. CUBIC FOOT METERS
   Basic Facilities Charge-------------------------$6.00
   Commodity Charge-------------$2.00 per 133 cubic feet

WATER SERVICE RECONNECTION CHARGE---------------------$35.00

TAP FEE - FRANKLIN PARK SUBDIVISION------------------$200.00 (1)

SEWER SERVICE
(ALL RESIDENTIAL)

MONTHLY CHARGES:

FRANKLIN PARK SUBDIVISION
$10.00 per month for the first year (ending Jan. 24,1993)
$15.00 per month after the first year

LLOYDWOOD SUBDIVISION
$15.00 per month

TAP FEE:
FRANKLIN PARK SUBDIVISION------------------$200.00 (2)
LLOYDWOOD SUBDIVISION----------------------$250.00 (3)

Late Payment Charges (Water and Sewer) and Sewer Reconnect Charge as per PSC Rules and Regulations

(1)Previously approved by Docket No. 15,066, Order No. 15,176
(2)Previously approved by Docket No. 15,067, Order No. 15,177
(3)Previously approved by Docket No. 16,578, Order No. 16,753